03-30-09

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---- In the Matter of ----	Docket No. 2008-0274
PUBLIC UTILITIES COMMISSION	
Instituting a Proceeding to Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited.	

HAWAII RENEWABLE ENERGY ALLIANCE

INITIAL STATEMENT OF POSITION

AND

CERTIFICATE OF SERVICE

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I. INTRODUCTION

By its Order filed on October 24, 2008, the Hawaii Public Utility Commission ("Commission") opened the instant docket. The Commission, by its Order filed on December 3, 2008, granted the November 13, 2008 motion of Hawaii Renewable Energy Alliance ("HREA") to intervene in the instant docket. Per the Commission's Order filed on December 28, 2008, included herein is HREA's Initial Statement of Position ("ISOP") regarding the implementation a decoupling mechanism for the Hawaiian Electric Company Inc., Hawaii Electric Light Company, Ltd., and Maui Electric Company Ltd. ("HECO Companies").

II. HREA's INITIAL STATEMENT OF POSITION

Key Elements of the Proposals. HREA believes the key elements of the proposals by the HECO Companies and the Consumer Advocate[1] are the "decoupling mechanism," and as part of the implementation of the decoupling mechanism, a "rate adjustment mechanism" ("RAM").

HREA understands the: (i) decoupling mechanism to the specific method to be designed and implemented to adjust revenues to make utility earnings "indifferent" to changes in sales or demand volume in periods between rate cases; and (ii) RAM to be a specific method to be designed and

[1] The Division of Consumer Advocacy of the state of Hawaii Department of Commerce and Consumer Advocacy.

implemented to adjust revenues (up or down) to cover the utility's fixed costs to account for volatility in sales in periods between cases.

HREA's Primary Interests. HREA's primary interests are to ensure that the approved decoupling mechanism:

1. truly makes the utility indifferent to sales,
2. mitigates any negative impacts to ratepayer,
3. is as simple in design and implementation as possible,
4. minimizes the risk to the ratepayer during periods between rate cases,
5. not only assists the utility in reducing regulatory lag, but also helps the utility achieve the concomitant benefits of improved financial standing,
6. facilitates the rapid deployment of renewable energy and energy efficiency measures in support of the Hawaii Clean Energy Initiative ("HCEI"), and
7. encourages the utility to become more efficient in its day-to-day management and operations.

HREA's Initial Position on the Decoupling Proposals Based on Our Interests. HREA believes the most important task of the instant docket is to get the "decoupling mechanism" right. Since we are not experts in the relevant details, we defer to Haiku Design and Analysis ("HDA") to work through the details with the HECO Companies and the CA. While there have been at least four model decoupling mechanisms proposed, one each by the HECO Companies, the CA, HDA and HREA, we do not see a clear winner at this time. While we initially believed the HREA Model based on the Idaho Power Decoupling mechanism, we would like to withdraw it from consideration at this time. It would appear that the HDA model is similar in concept and further review of the HREA Model at this time would not be productive and worthy of our time. That said, we would like to review our initial position based on the primary interests as outlined above:

1. True Indifference. At this time, HREA is not taking a position as to which of the three remaining proposals would be the best. On a qualitative level, we do believe the HECO

Companies' proposal to be unnecessarily complicated, certainly compared to our model. We observe that both the CA and HDA proposals appear to fall in between, and we look forward to additional discussion and clarifications;

2. True Mitigation. We are not even sure this is possible, given that it may be hard, for example, to determine whether decoupling is resulting in energy bill increases greater than what would have happened without decoupling. We do see benefits associated with decoupling in terms of the alternative, i.e., annual rate cases, which would sap utility, commission and CA resources unnecessarily in our opinion. We wonder if these savings can somehow be captured and marshaled;
3. Keeping It Simple. As for our position on "1" above, we look forward to additional discussion and clarifications;
4. Minimal Risk. Clearly, a RAM can increase revenues to the utility, which may or may not be approved at the next rate case. HREA is interested in what the ratepayers will receive in return for their assumption of increased risk;
5. Concomitant Benefits. We are interested in additional discussion on this topic. Specifically, we would like to hear more from the HECO Companies as to how "Wall Street's" views might change over time. For example, would decoupling possibly lead to a favorable change in their philosophy regarding "imputed debt" that is associated with purchase power;
6. What about the HCEI. As this time, we do not see a direct link between decoupling and rapid deployment of renewables. Thus, we would favor some sort of a performance-based mechanism that would tie implementation of decoupling to the pace of renewable deployment ala Feed-In Tariffs, net metering and competitive bidding. This will require some additional discussion. Our initial concept would be to establish an annual renewable deployment rate for indexing the amount of the RAM to be authorized. For example, if the

utility was on target, 100% of the RAM would be authorized; if the utility reached only 50% of the target, 50% of the RAM, etc.

7. What about improvements in efficiency. One of the more interesting benefits of decoupling is that the utility is protected from all the risks that could negatively impact sales, including economic downturns, weather conditions, and uptake in energy efficiency and renewables. Given that the HECO Companies will be made "recession-proof" if decoupling is approved, again what is in it for the ratepayer. HREA believes if decoupling also results in rapid deployment of renewables and efficiency the ratepayer will ultimately benefit over time with lower energy bills as more and more oil is off-set. In the interim, as grid infrastructure improvements are implemented to support the HCEI, there will be additional revenue requirements. What is missing at this point is what efforts will the HECO Companies take to become more efficient in its management and operations, and are there other disincentives to decoupling and the HCEI that need to be removed.

In the case of the former, we look to the HECO Companies for an initiative. In the case of the latter, we can think of a one example. The Energy Cost Adjustment Clause ("ECAC") allows for the pass through of fuel costs. However, we understand there is also a mechanism that provides an incentive to operate conventional generators as efficiently as possible. While this does makes sense, we believe there are some unintended consequences associated with respect to the integration of renewables. For example, while increased spinning reserve would benefit load following of intermittent renewables, doing so would be more inefficient and the HECO Companies would receive less compensation. Therefore, we recommend that the ECAC be converted to a straight fuel-cost pass through.

DATED: March 30, 2009, Honolulu, Hawaii

President, HREA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing ISOP upon the following parties by hand-delivery and electronic service as follows:

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